

***AUDIT EXAMINATION OF THE
CALLOWAY COUNTY FISCAL COURT***

Fiscal Year Ended June 30, 2008

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
CALLOWAY COUNTY FISCAL COURT

June 30, 2008

The CPA firm of Martin, Colson, Hale, & Henderson has completed the audit of the Calloway County Fiscal Court for fiscal year ended June 30, 2008. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky.

Financial Condition:

The fiscal court had unrestricted net assets of \$8,110,211 in its governmental activities as of June 30, 2008, with total net assets of \$13,943,293. In its business-type activities, total cash and cash equivalents were \$45,984 with total net assets of \$70,501. The fiscal court had total debt principal as of June 30, 2008 of \$5,814,218 with \$739,233 due within the next year.

Report Comments:

- | | |
|---------|---|
| 2008-01 | The Fiscal Court Should Approve All County Employees Compensation Rates In Accordance With KRS 64.530(1). |
| 2008-02 | Vending Machine Funds Should Be Accounted For Properly – Road Department |
| 2008-03 | Improvements Needed Regarding Proper Recording Of Capital Assets |
| 2008-04 | Time Sheets Should Be Initialed By A Supervisor Before Being Paid |

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathon Miller, Secretary

Finance and Administration Cabinet

Honorable Larry Elkins, Calloway County Judge/Executive

Members of the Calloway County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Calloway County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Calloway County, Kentucky prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky, as of June 30, 2008, and respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathon Miller, Secretary
Finance and Administration Cabinet
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Members of the Calloway County Fiscal Court

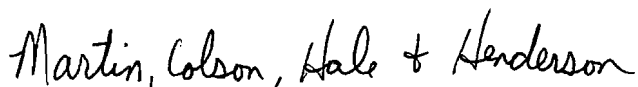
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Calloway County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2008 on our consideration of Calloway County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2008-01 The Fiscal Court Should Approve All County Employees Compensation Rates In Accordance With KRS 64.530(1).
- 2008-02 Vending Machine Funds Should Be Accounted For Properly – Road Department
- 2008-03 Improvements Needed Regarding Proper Recording Of Capital Assets
- 2008-04 Time Sheets Should Be Initialed By A Supervisor Before Being Paid

Respectfully submitted,



Martin, Colson, Hale, & Henderson CPA's
December 16, 2008

CALLOWAY COUNTY OFFICIALS

For The Year Ended June 30, 2008

Fiscal Court Members:

Larry Elkins	County Judge/Executive
Johnny Gingles	Magistrate
Eddie Clyde Hale	Magistrate
Connie Morgan	Magistrate
Bobby Stubblefield	Magistrate

Other Elected Officials:

David Harrington	County Attorney
Phil Hazle	Jailer
Ray Coursey, Jr.	County Clerk
Linda Avery	Circuit Court Clerk
William Marcum	Sheriff
Ronnie Jackson	Property Valuation Administrator
Mike Garland	Coroner

Appointed Personnel:

Anita Gallimore	County Treasurer
Dawn Gaskin	County Planner
Michelle Corum	Personnel or Payroll Officer
Jodie Brooks	Road Supervisor
Ed Pavlick	911 Administrator
Julie Robertson	Jail Administrative Assistant/Bookkeeper
Alicia Tabers	Solid Waste Administrator

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CALLOWAY COUNTY
STATEMENT OF NET ASSETS – MODIFIED CASH BASIS

June 30, 2008

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CALLOWAY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business - Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 9,036,528	\$ 45,984	\$ 9,082,512
Total Current Assets	9,036,528	45,984	9,082,512
Non-current Assets:			
Land and Land Improvements	348,227		348,227
Capital Assets - Net of Accumulated Depreciation			
Buildings	7,592,365		7,592,365
Vehicles	531,187	24,517	555,704
Equipment	938,668		938,668
Infrastructure Assets - Net of Depreciation	<u>1,310,536</u>		<u>1,310,536</u>
Total Non-current Assets	<u>10,720,983</u>	<u>24,517</u>	<u>10,745,500</u>
Total Assets	<u>19,757,511</u>	<u>70,501</u>	<u>19,828,012</u>
LIABILITIES			
Current Liabilities:			
Good Faith Obligation	51,800		51,800
Bonds Payable	450,000		450,000
Financing Obligations Payable	<u>237,433</u>		<u>237,433</u>
Total Current Liabilities	<u>739,233</u>		<u>739,233</u>
Non-current Liabilities:			
Bonds Payable	4,935,000		4,935,000
Financing Obligations Payable	<u>139,985</u>		<u>139,985</u>
Total Non-current Liabilities	<u>5,074,985</u>		<u>5,074,985</u>
Total Liabilities	<u>5,814,218</u>		<u>5,814,218</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,906,765	24,517	4,931,282
Restricted For:			
Debt Service	926,317		926,317
Unrestricted	<u>8,110,211</u>	<u>45,984</u>	<u>8,156,195</u>
Total Net Assets	<u>\$13,943,293</u>	<u>\$ 70,501</u>	<u>\$14,013,794</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

CALLOWAY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

		Program Revenue Received	
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General Government	\$2,906,010	\$ 63,542	\$1,075,232
Protection to Persons and Property	1,262,988	1,657,030	107,089
General Health and Sanitation	238,814	7,233	
Social Services	23,011		
Recreation and Culture	162,423		
Roads	1,578,585	74,566	1,193,529
Loss on Disposition – Net	59,060		
Interest on Long-Term Debt	318,768		
Capital Projects	<u>402,396</u>	<u> </u>	<u> </u>
Total Governmental Activities	<u>6,952,055</u>	<u>1,802,371</u>	<u>2,375,850</u>
Business-type Activities:			
Jail Canteen	<u>295,401</u>	<u>318,066</u>	<u> </u>
Total Business-type Activities	<u>295,401</u>	<u>318,066</u>	<u> </u>
Total Primary Government	<u>\$7,247,456</u>	<u>\$2,120,437</u>	<u>\$2,375,850</u>
General Revenues:			
Taxes:			
Real Property Taxes			
Personal Property Taxes			
Motor Vehicle Tax			
Deed Transfer Tax			
Bank Franchise Taxes			
Franchise Taxes			
Other Taxes			
In Lieu of Tax Payments			
Excess Fees			
Legal Process			
Miscellaneous Revenues			
Interest Received			
Total General Revenues			
Change in Net Assets			
Net Assets – Beginning			
Net Assets - Ending			

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

<u>Net (Expenses) Revenues</u> <u>and Changes in Net Assets</u> <u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Totals</u>
\$ (1,767,236)	\$	\$ (1,767,236)
501,131		501,131
(231,581)		(231,581)
(23,011)		(23,011)
(162,423)		(162,423)
(310,490)		(310,490)
(59,060)		(59,060)
(318,768)		(318,768)
(402,396)		(402,396)
<u>(2,773,834)</u>		<u>(2,773,834)</u>
	22,665	22,665
	<u>22,665</u>	<u>22,665</u>
<u>(2,773,834)</u>	<u>22,665</u>	<u>(2,751,169)</u>
1,960,051		1,960,051
156,796		156,796
401,961		401,961
119,976		119,976
94,091		94,091
99,285		99,285
299,277		299,277
209,083		209,083
289,839		289,839
200		200
390,532		390,532
<u>277,579</u>	<u>490</u>	<u>278,069</u>
<u>4,298,670</u>	<u>490</u>	<u>4,299,160</u>
1,524,836	23,155	1,547,991
<u>12,418,457</u>	<u>47,346</u>	<u>12,465,803</u>
<u>\$13,943,293</u>	<u>\$ 70,501</u>	<u>\$14,013,794</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

CALLOWAY COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

JUNE 30, 2008

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Jail Construction Fund</u>	<u>Jail Grant Fund</u>
ASSETS					
Cash and Cash Equivalents	\$ <u>918,759</u>	\$ <u>312,762</u>	\$ <u>760,279</u>	\$ <u>5,047,025</u>	\$ <u>1,071,385</u>
Total Assets	<u>918,759</u>	<u>312,762</u>	<u>760,279</u>	<u>5,047,025</u>	<u>1,071,385</u>
FUND BALANCES					
Reserved for:					
Encumbrances	37,348	120,221	27,571		
Unreserved:					
General Fund	881,411				
Special Revenue Funds		192,541	732,708		
Capital Projects Fund				5,047,025	1,071,385
Debt Service Fund					
Total Fund Balances	<u>\$918,759</u>	<u>\$312,762</u>	<u>\$760,279</u>	<u>\$5,047,025</u>	<u>\$1,071,385</u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$9,036,528
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported In The Funds.	13,732,407
Accumulated Depreciation	(3,011,424)
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Good Faith Obligation	(51,800)
Financial Obligations	(377,418)
Bonded Debt	(5,385,000)
Net Assets of Governmental Activities	<u>\$13,943,293</u>

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
June 30, 2008
(Continued)

Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
<u>\$926,317</u>	<u>\$1</u>	<u>\$9,036,528</u>
<u>926,317</u>	<u>1</u>	<u>9,036,528</u>
		185,140
		881,411
	1	925,250
		6,118,410
<u>926,317</u>		<u>926,317</u>
<u>\$926,317</u>	<u>\$1</u>	<u>\$9,036,528</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Jail Construction Fund</u>
REVENUES				
Taxes	\$ 2,349,965	\$	\$	\$ 762,682
In Lieu Tax Payments	208,554			529
Excess Fees	289,839			
Licenses and Permits	63,542			
Intergovernmental	780,129	1,269,337	1,673,523	18,792
Charges for Services	7,233		90,595	
Miscellaneous	119,849	180,476	50,601	
Interest	<u>13,666</u>	<u>2,216</u>	<u>9,758</u>	<u>183,398</u>
Total Revenues	<u>3,832,777</u>	<u>1,452,029</u>	<u>1,824,477</u>	<u>965,401</u>
EXPENDITURES				
General Government	1,770,952			
Protection to Person and Property	36,449		1,117,379	
General Health and Sanitation	238,574			
Social Services	23,011			
Recreation and Culture	130,471			
Roads		1,596,958		
Debt Service		107,339		
Capital Projects	402,396	306,740		
Administration	<u>597,862</u>	<u>240,245</u>	<u>275,952</u>	<u>3,142</u>
Total Expenditures	<u>3,199,715</u>	<u>2,251,282</u>	<u>1,393,331</u>	<u>3,142</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>633,062</u>	<u>(799,253)</u>	<u>431,146</u>	<u>962,259</u>
Other Financing Sources (Uses)				
Proceeds From Sale of Capital Assets		149,605		
Issuance of Financing Obligation		205,974		
Transfers From Other Funds	375,513	825,000		
Transfers To Other Funds	<u>(825,001)</u>	<u>(175,000)</u>		<u>(348,660)</u>
Total Other Financing Sources(Uses)	<u>(449,488)</u>	<u>1,005,579</u>		<u>(348,660)</u>
Net Change in Fund Balances	183,574	206,326	431,146	613,599
Fund Balances - Beginning	<u>735,185</u>	<u>106,436</u>	<u>329,133</u>	<u>4,433,426</u>
Fund Balances - Ending	<u>\$ 918,759</u>	<u>\$ 312,762</u>	<u>\$ 760,279</u>	<u>\$5,047,025</u>

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

<u>Jail Grant Fund</u>	<u>Public Properties Corporation Fund</u>	<u>Non- Major Fund</u>	<u>Total Governmental Funds</u>
\$	\$	\$	\$ 3,112,647
			209,083
			289,839
			63,542
	329,202	4,464	4,075,447
			97,828
			350,926
<u>37,969</u>	<u>30,572</u>		<u>277,579</u>
<u>37,969</u>	<u>359,774</u>	<u>4,464</u>	<u>8,476,891</u>
			1,770,952
			1,153,828
			238,574
			23,011
			130,471
		4,464	1,601,422
	738,908		846,247
			709,136
<u> </u>	<u>350</u>	<u> </u>	<u>1,117,551</u>
<u> </u>	<u>739,258</u>	<u>4,464</u>	<u>7,591,192</u>
<u>37,969</u>	<u>(379,484)</u>	<u> </u>	<u>885,699</u>
			149,605
	51,800		257,774
	348,660	1	1,549,174
<u>(200,000)</u>	<u> </u>	<u>(513)</u>	<u>(1,549,174)</u>
<u>(200,000)</u>	<u>400,460</u>	<u>(512)</u>	<u>407,379</u>
(162,031)	20,976	(512)	1,293,078
<u>1,233,416</u>	<u>905,341</u>	<u>513</u>	<u>7,743,450</u>
<u>\$1,071,385</u>	<u>\$ 926,317</u>	<u>\$ 1</u>	<u>\$ 9,036,528</u>

The accompanying notes are an integral part of the financial statements.

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**CALLOWAY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS**

For The Year Ended June 30, 2008

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CALLOWAY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds to the Statement of Activities:

Net Change In Fund Balances - Total Governmental Funds	\$ 1,293,078
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Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Is Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.

Assets Disposed Of, Net Book Value	(208,665)
Capital Outlay	528,664
Depreciation Expense	(357,946)

The Issuance Of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds, While Repayment Of Principal On Long-term Debt Consumes The Current Financial Resources Of Governmental Funds. These Transactions, However, Have No Effect On Net Assets.

Financing Obligations Proceeds	(257,774)
Financing Obligations Principal Payments	97,479
Bond Principal Payments	<u>430,000</u>
Change In Net Assets Of Governmental Activities	<u>\$1,524,836</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND- MODIFIED CASH BASIS

June 30, 2008

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CALLOWAY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2008

	Business-Type Activities Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 45,984
Total Current Assets	<u>45,984</u>
Non-current Assets:	
Capital Assets:	
Vehicles	30,400
Less Accumulated Depreciation	<u>(5,883)</u>
Total Non-current Assets	<u>24,517</u>
Total Assets	<u>70,501</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	24,517
Unrestricted	<u>45,984</u>
Total Net Assets	<u>\$ 70,501</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

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CALLOWAY COUNTY
STATEMENT REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS-PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	<u>Business-Type Activities Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Receipts/Inmate Deposits	\$ 288,660
Total Operating Revenues	<u>288,660</u>
Operating Expenses	
Commissary Supplies	118,995
Educational and Recreational	1,507
Inmate Insurance	5,362
Vehicles Maintenance	7,797
Depreciation	2,933
Personnel	4,680
Miscellaneous	2,439
Total Operating Expenses	<u>143,713</u>
Operating Income (Loss)	<u>144,947</u>
Non-operating Revenues (Expenses)	
Recycling	8,713
Interest Income	490
Inmate Pay From State	11,734
Other Income	8,959
Inmate Refunds	<u>(151,688)</u>
Total Non-operating Revenues	
(Expenses)	<u>(121,792)</u>
Change In Net Assets	23,155
Total Net Assets - Beginning	<u>47,346</u>
Total Net Assets - Ending	<u>\$ 70,501</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

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CALLOWAY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	Business-Type Activities Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Inmates	\$ 288,660
Educational and Recreational	(1,507)
Commissary Supplies	(118,995)
Inmate Insurance	(5,362)
Vehicle Maintenance	(7,797)
Personnel Costs	(4,680)
Miscellaneous	(2,439)
Net Cash Provided By Operating Activities	<u>147,880</u>
Cash Flows From Non-capital Financing Activities	
Other Income	8,959
Recycling Income	8,713
Inmate Pay From State	11,734
Inmate Refunds on Accounts	(151,688)
Net Cash Used By Non-capital Financing Activities	<u>(122,282)</u>
Cash Flow From Capital and Related Financing Activities	
Capital Asset-Automobile	(14,900)
Net Cash Used By Capital and Related Financing Activities	<u>(14,900)</u>
Cash Flows from Investing Activities	
Interest Earned	<u>490</u>
Net Cash Provided By Investing Activities	<u>490</u>
Net Increase (Decrease) in Cash and Cash Equivalents	11,188
Cash and Cash Equivalents - July 1, 2007	\$ <u>34,796</u>
Cash and Cash Equivalents - June 30, 2008	\$ <u>45,984</u>

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
STATEMENT OF CASH FLOWS –
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

	Business-Type Activities Enterprise Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating Income	\$144,947
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>2,933</u>
Net Cash Provided By Operating Activities	<u>\$147,880</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets; but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated balances, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Calloway County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Calloway County Public Properties Corporation

The Calloway County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended with Calloway County's financial statements.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Calloway County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Calloway County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Calloway County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statements of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major funds. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development required a separate fund or where management required that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses, distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Jail Construction Fund - The purpose of this fund is to account for tax revenues generated for the payment for the new jail. Current debt payments are transferred to the Public Properties Corporation for the payment when due.

Jail Grant Fund - This fund was established to isolate state grant proceeds intended to offset construction costs of the county jail. These funds and associated earnings are intended to be used for future repayments of the jail debt.

Public Properties Corporation Fund - The purpose of this fund is to account for transfers in from the jail construction fund and lease payments made by the Administrative Office of the Courts (AOC) for the payment of debt on the jail and judicial building bond issues.

The primary government also has the following non-major funds: Federal Emergency Management Assistance (FEMA) Fund, the Local Government Economic Assistance (LGEA) Fund, and the Community Development Block Grant (CDBG) Fund.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, FEMA Fund, and CDBG Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Jail Construction Fund and Jail Grant Fund are presented as capital projects funds. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Public Properties Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principle and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposits issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based upon the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

The county is considered a "Phase Three" entity and, as such, has elected not to report major general infrastructure assets retroactively.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Governor's Office of Local Development does not require the Public Properties Corporation to be budgeted because debt payments are budgeted in other funds and transferred to the Public Properties Corporation.

J. Related Organizations, Joint Ventures, and Jointly Governed Organizations

Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Calloway County Fiscal Court:

Economic Development Corporation
 Industrial Development Authority
 Fire District
 Almo/Dexter Water District
 Water District #2

Extension District
 Library District
 Conservation District
 South 641 Water District
 Lynn Grove Water District

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Ventures, and Jointly Governed Organizations (Continued)

Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, the following are considered joint ventures of Calloway County Fiscal Court:

Murray Calloway County Hospital

The Calloway County Fiscal Court (Fiscal Court) has retained an ongoing financial interest for the Murray-Calloway County Hospital. The Hospital is a joint venture between Fiscal Court and the City of Murray "to promote health and welfare and the development and operation of a viable integrated health delivery system" for the county, city, and surrounding communities. The Fiscal Court and City of Murray have equal ownership rights (50%) and are the exclusive members of the Hospital.

Jointly Governed Organizations

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based on these criteria, the following are considered jointly governed organization of the Calloway County Fiscal Court:

Murray-Calloway County Park
Murray-Calloway County Airport

Murray-Calloway County Senior Citizens
Murray-Calloway County Transit Authority

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ <u>348,227</u>	\$ _____	\$ (_____)	\$ <u>348,227</u>
Total Capital Assets Not Being Depreciated	348,227			348,227
Capital Assets Being Depreciated:				
Buildings	9,775,426			9,775,426
Vehicles	449,605	328,983	(46,200)	732,388
Equipment	1,525,326	98,915	(210,000)	1,414,241
Infrastructure	<u>1,361,359</u>	<u>100,766</u>	_____	<u>1,462,125</u>
Total Capital Assets Being Depreciated	13,111,716	528,664	(256,200)	13,384,180
Less Accumulated Depreciation For:				
Buildings	(1,988,122)	(194,939)		(2,183,061)
Vehicles	(184,404)	(50,247)	33,450	(201,201)
Equipment	(425,636)	(64,022)	14,085	(475,573)
Infrastructure	<u>(102,851)</u>	<u>(48,738)</u>	_____	<u>(151,589)</u>
Total Accumulated Depreciation	<u>(2,701,013)</u>	<u>(357,946)</u>	<u>47,535</u>	<u>(3,011,424)</u>
Total Capital Assets, Being Depreciated, Net	<u>10,410,703</u>	<u>170,718</u>	<u>(208,665)</u>	<u>10,372,756</u>
Governmental Activities Capital Assets, Net	<u>\$10,758,930</u>	<u>\$ 170,718</u>	<u>\$(208,665)</u>	<u>\$10,720,983</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicle	\$ <u>15,500</u>	\$ <u>14,900</u>	\$ _____	\$ <u>30,400</u>
Total Capital Assets Being Depreciated	15,500	14,900		30,400
Less Accumulated Depreciation For:				
Vehicle	<u>(2,950)</u>	<u>(2,933)</u>	_____	<u>(5,883)</u>
Total Accumulated Depreciation	<u>(2,950)</u>	<u>(2,933)</u>	_____	<u>(5,883)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 12,550</u>	<u>\$ 11,967</u>	<u>\$ _____</u>	<u>\$ 24,517</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 30,403
Protection to Persons and Property	186,519
General Health and Sanitation	240
Recreation and Culture	31,952
Roads, Including Depreciation of General Infrastructure Assets	<u>108,832</u>
Total Depreciation Expense - Governmental Activities	<u>\$357,946</u>

Business-Type Activities:

Protection to Persons and Property (Jail Canteen)	\$ <u>2,933</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 2,933</u>

Note 4. Short-term Debt

A. Road Equipment-Financing Obligation

On March 31, 2008, Calloway County entered into a financial agreement with The Bank of New York & Worldwide Equipment to purchase two Mack trucks for \$205,974. The terms of this agreement consist of eleven monthly payments of interest only at an interest rate of 3.953 percent. As of June, 30, 2008, Calloway County was in compliance with the terms of the agreement. The principal balance as of June 30, 2008 was \$200,000. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Principal	Interest
2009	\$ <u>200,000</u>	\$ <u>6,579</u>
Totals	\$ <u>200,000</u>	\$ <u>6,579</u>

B. Changes in Short-term Debt

Short-term liability activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	<u>0</u>	<u>200,000</u>	<u>0</u>	<u>200,000</u>	<u>200,000</u>
Governmental Activities					
Short-term Liabilities	\$ <u>0</u>	\$ <u>200,000</u>	\$ <u>0</u>	\$ <u>200,000</u>	\$ <u>200,000</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Long - Term Debt

A. Detention Facility Bonds-Series 1996-Revenue Bonds

On November 14, 1996, Calloway County authorized the Public Properties Corporation to issue up to \$4,545,000 of Revenue Bonds, Series 1996. These bonds were issued to retire Revenue Bonds Anticipation Notes, Series 1995, dated July 1, 1995 and to provide long-term financing for the Calloway County Detention Facilities. These bonds pay interest at the rate of 5.2 percent and are secured by the facilities, contents, and revenues stream created by such assets. As of June 30, 2008 the Public Properties Corporation was in compliance with the terms of the issuance. Bonds outstanding as of June 30, 2008 were \$2,625,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 235,000	\$ 136,500
2010	250,000	124,280
2011	260,000	111,280
2012	275,000	97,760
2013	290,000	83,460
2014-2017	<u>1,315,000</u>	<u>175,240</u>
Totals	<u>\$ 2,625,000</u>	<u>\$ 728,520</u>

B. Court Facility Bonds-Series 1997-Revenue Bonds

On March 13, 1997, Calloway County authorized the Public Properties Corporation to issue up to \$4,420,000 of Revenue Bonds, Series 1997. These bonds were issued to provide funding for the construction and furnishing of the Court Annex Facility. These bonds pay a variable interest rate of 4.75 to 5.625 percent. These bonds are secured by the facility and contents as well as the lease proceeds from the Kentucky Administrative Office of the Courts. As of June 30, 2008, the Public Properties Corporation was in compliance with the terms of the issuance. Bonds outstanding as of June 30, 2008 were \$2,760,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 215,000	\$ 150,458
2010	225,000	139,708
2011	240,000	128,120
2012	250,000	115,400
2013	265,000	101,900
2014-2018	<u>1,565,000</u>	<u>275,119</u>
Totals	<u>\$ 2,760,000</u>	<u>\$ 910,705</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Long - Term Debt (Continued)

C. Road Equipment-Financing Obligation

On April 4, 2007, Calloway County entered into a financial agreement with US Bank to purchase four tractors for \$177,000. The terms of this agreement consist of sixty principal and interest payments due monthly at an interest rate of 3.66 percent. As of June 30, 2008, Calloway County was in compliance with the terms of the agreement. The principal balance as of June 30, 2008 was \$135,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 36,000	\$ 5,481
2010	36,000	3,892
2011	36,000	2,302
2012	<u>27,000</u>	<u>684</u>
Totals	<u>\$135,000</u>	<u>\$12,359</u>

D. County Clerk Equipment-Financing Obligation

On November 15, 2005, Calloway County entered into a financial agreement with Regions Bank to purchase equipment for the Calloway County Clerk for \$65,558. The terms of this agreement consist of forty-eight principal and interest payments of \$780 each and one final payment of \$38,000 due December 15, 2009. This debt bears an interest rate of 4.64 percent. As of June 30, 2008, Calloway County was in compliance with the terms of the agreement. During the current fiscal year the clerk made payments in excess of the required monthly amount. The principal balance as of June 30, 2008 was \$42,418. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,433	\$ 404
2010	<u>40,985</u>	<u>915</u>
Total	<u>\$ 42,418</u>	<u>\$ 1,319</u>

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2008 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Good Faith Obligation (See Note 7D)		51,800		51,800	51,800
Revenue Bonds	5,815,000		430,000	5,385,000	450,000
Financing Obligations	<u>268,923</u>	<u>205,974</u>	<u>97,479</u>	<u>377,418</u>	<u>237,433</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 6,083,923</u>	<u>\$ 257,774</u>	<u>\$ 527,479</u>	<u>\$ 5,814,218</u>	<u>\$ 739,233</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 6. Interest On Short-term Debt, Long-term Debt, and Financing Obligations

Interest on Long-term debt on the Statement of Activities includes \$9,860 in interest on financing obligations and \$308,908 in interest on revenue bonds.

Note 7. Commitments and Contingencies

A. Contingent Liability-Hospital Bonds

On May 2, 2002, Calloway County (County) and the City of Murray (City) issued the Murray-Calloway County Public Hospital Corporation First Mortgage Revenue Refunding Bonds, Series 2002 in the amount of \$5,425,000. These bonds were issued to expand the hospital and refinance certain obligations of the hospital's nursing home issued in June 1992. The City and County sublease the hospital and nursing home to the Murray-Calloway County Public Hospital Corporation (Corporation) for yearly rental payments equal to the annual requirements on the bonds. This agreement is renewable annually. In case of default by Corporation, the City and County are each liable for fifty percent of the bond debt requirement. As of June 30, 2008 the Corporation was not in default on this obligation.

Bonds outstanding as of June 30, 2008 were \$995,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	175,000	43,663
2010	190,000	35,308
2011	200,000	26,090
2012	210,000	21,645
2013	<u>220,000</u>	<u>0</u>
Totals	<u>\$ 995,000</u>	<u>\$ 126,706</u>

B. Contingent Receivable-Economic Development Grant

In 2003, Calloway County was awarded an Economic Development Grant from Kentucky Cabinet for Economic Development of \$800,000. The purpose of the grant was intended for the county to loan this money to the Murray-Calloway County Economic Development Corporation with the understanding that the Economic Development Corporation would loan these funds to the Pella Corporation, a new business location in Murray, KY. The terms of the loan agreement as stipulated in the grant agreement state that the loan would be repaid in five (5) annual payments of \$160,000 each starting in December, 2005. However the grant agreement and loan agreement also stipulate that the annual payments would be forgiven if the Pella Corporation met certain job requirements as spelled out in the agreements. We have not been made aware of any failure to comply with the terms of this grant agreement.

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Amount</u>
2009	160,000
2010	<u>160,000</u>
Totals	<u>\$ 320,000</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

C. Commitment-Grader Lease

On December 6, 2007 the County entered into an agreement with John Deere Credit for the use of two graders for thirty six months at which time they are expected to be returned. The terms of this lease consist of thirty six monthly payments of \$4,111 beginning December 20, 2007 and ending November 20, 2010.

Future obligations are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Amount</u>
2009	\$ 49,337
2010	49,337
2011	<u>20,557</u>
Totals	<u>\$ 119,231</u>

D. Commitment-First Mortgage Refunding Revenue Bonds (Court Annex Facilities Project), Series 2008

On June 19, 2008 the Calloway County Public Properties Corporation sold \$2,600,000 of bonds for the purpose of retiring the Court Facility Bonds –Series 1997-Revenue Bonds and paying the cost of issuance of said bonds. These bonds are secured by a foreclosable first mortgage lien on the facility as well as a pledge of rentals due under the lease of the project and project site by the Corporation to the County and AOC which have been assigned to the Trustee under the mortgage. AOC's obligations under the lease are on an automatically renewable biennial basis and rental payments adequate to meet the maturing principal and interest requirements of the bonds to the due date of the bonds. As of June 30, 2008 \$51,800 was advanced to the County as a good faith deposit. The remaining proceeds were received after year end. Future principal and interest payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 80,000	\$129,287
2010	250,000	326,670
2011	255,000	325,420
2012	265,000	328,663
2013	270,000	326,110
2014-2018	<u>1,480,000</u>	<u>1,628,882</u>
Totals	<u>\$2,600,000</u>	<u>\$3,065,032</u>

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 9. Deferred Compensation

The Calloway County Fiscal Court has voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school, and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2008, Calloway County was a member of the Kentucky Association of Counties All Lines Insurance Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Prior Period Adjustment

The Calloway County Fiscal Court determined in fiscal year ended June 30, 2008 that the Health Department property previously listed as an asset of the County was in fact not owned by the County. As of June 30, 2007 this property had a recorded cost of \$198,500 and accumulated depreciation of \$118,730. These amounts have been excluded from the beginning balances of the County's current financial statements.

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CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash basis

For The Year Ended June 30, 2008

CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis

For The Year Ended June 30, 2008

GENERAL FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,134,400	\$ 2,134,400	\$ 2,349,965	\$ 215,565
In Lieu Tax Payments	185,000	185,000	208,554	23,554
Excess Fees	156,175	156,175	289,839	133,664
Licenses and Permits	50,100	50,100	63,542	13,442
Intergovernmental	348,000	915,158	780,129	(135,029)
Charges for Services	7,000	7,000	7,233	233
Miscellaneous	132,120	132,120	119,849	(12,271)
Interest	<u>5,000</u>	<u>5,000</u>	<u>13,666</u>	<u>8,666</u>
Total Revenues	<u>3,017,795</u>	<u>3,584,953</u>	<u>3,832,777</u>	<u>247,824</u>
Expenditures				
General Government	2,396,366	2,437,524	1,770,952	666,572
Protection to Persons and Property	54,363	54,363	36,449	17,914
General Health and Sanitation	164,095	164,095	238,574	(74,479)
Social Services	29,400	29,400	23,011	6,389
Recreation and Culture	130,746	130,746	130,471	275
Debt Services	75,000	75,000		75,000
Capital Projects	36,488	562,488	402,396	160,092
Administration	<u>786,260</u>	<u>786,260</u>	<u>597,862</u>	<u>188,398</u>
Total Expenditures	<u>3,672,718</u>	<u>4,239,876</u>	<u>3,199,715</u>	<u>1,040,161</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(654,923)	(654,923)	633,062	1,287,985
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	400,000	400,000	375,513	(24,487)
Transfers To Other Funds	(345,077)	(345,077)	(825,001)	(479,924)
Total Other Financing Sources (Uses)	<u>54,923</u>	<u>54,923</u>	(449,488)	(504,411)
Net Changes in Fund Balance	(600,000)	(600,000)	183,574	783,574
Fund Balance - Beginning	<u>600,000</u>	<u>600,000</u>	<u>735,185</u>	<u>135,185</u>
Fund Balance - Ending	\$ _____	\$ _____	\$ <u>918,759</u>	\$ <u>918,759</u>

CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

ROAD FUND				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>(Budgetary</u>	<u>Final Budget</u>
			<u>Basis)</u>	<u>Positive</u>
				<u>(Negative)</u>
Revenues				
Intergovernmental	\$1,324,704	\$1,324,704	\$1,269,337	\$ (55,367)
Charges For Services	50,000	50,000		(50,000)
Miscellaneous	133,000	269,000	330,081	61,081
Interest	1,000	1,000	2,216	1,216
Total Revenues	<u>1,508,704</u>	<u>1,644,704</u>	<u>1,601,634</u>	<u>(43,070)</u>
Expenditures				
Roads	1,663,025	1,770,025	1,596,958	173,067
Debt Service	110,000	339,000	107,339	231,661
Capital Projects			306,740	(306,740)
Administration	<u>328,688</u>	<u>328,688</u>	<u>240,245</u>	<u>88,443</u>
Total Expenditures	<u>2,101,713</u>	<u>2,437,713</u>	<u>2,251,282</u>	<u>186,431</u>
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources (Uses)	(593,009)	(793,009)	(649,648)	143,361
OTHER FINANCING SOURCES (USES)				
Financing Obligations Proceeds		200,000	205,974	5,974
Transfers From Other Funds	345,077	345,077	825,000	479,923
Transfers To Other Funds			(175,000)	(175,000)
Total Other Financing Sources (Uses)	<u>345,077</u>	<u>545,077</u>	<u>855,974</u>	<u>310,897</u>
Net Changes in Fund Balance	(247,932)	(247,932)	206,326	454,258
Fund Balance – Beginning	<u>247,932</u>	<u>247,932</u>	<u>106,436</u>	<u>(141,496)</u>
Fund Balance – Ending	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 312,762</u>	<u>\$ 312,762</u>

CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

JAIL FUND				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Revenues				
Intergovernmental	\$ 1,170,000	\$ 1,170,000	\$1,673,523	\$ 503,523
Charges for Services	72,000	72,000	90,595	18,595
Miscellaneous	41,000	41,000	50,601	9,601
Interest	2,000	2,000	9,758	7,758
Total Revenues	<u>1,285,000</u>	<u>1,285,000</u>	<u>1,824,477</u>	<u>539,477</u>
Expenditures				
Protection to Persons and Property	1,294,000	1,294,000	1,117,379	176,621
Administration	<u>347,000</u>	<u>347,000</u>	<u>275,952</u>	<u>71,048</u>
Total Expenditures	<u>1,641,000</u>	<u>1,641,000</u>	<u>1,393,331</u>	<u>247,669</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	(356,000)	(356,000)	<u>431,146</u>	<u>787,146</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>356,000</u>	<u>356,000</u>	<u> </u>	(356,000)
Total Other Financing Sources (Uses)	<u>356,000</u>	<u>356,000</u>	<u> </u>	(356,000)
Net Changes in Fund Balance			431,146	431,146
Fund Balance - Beginning	<u> </u>	<u> </u>	<u>329,133</u>	<u>329,133</u>
Fund Balance - Ending	\$ <u> </u>	\$ <u> </u>	\$ <u>760,279</u>	\$ <u>760,279</u>

CALLOWAY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditure may not exceed budgeted appropriations at the activity level.

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**CALLOWAY COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2008

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**CALLOWAY COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
Other Supplemental Information**

June 30, 2008

	<u>FEMA Fund</u>	<u>LGEA Fund</u>	<u>CDBG Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ _____	\$ _____	\$ _____ 1	\$ _____ 1
Total Assets	_____	_____	_____ 1	_____ 1
FUND BALANCES				
Unreserved:				
Special Revenue Fund	_____	_____	_____ 1	_____ 1
Total Fund Balances	\$ _____	\$ _____	\$ _____ 1	\$ _____ 1

The notes to the financial statements are an integral part of this statement.

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CALLOWAY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplemental Information

For The Year Ended June 30, 2008

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CALLOWAY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2008

	<u>FEMA Fund</u>	<u>LGEA Fund</u>	<u>CDBG Fund</u>	<u>Total Non-Major Governmental Funds</u>
REVENUES				
Intergovernmental	\$ _____	\$ <u>4,464</u>	\$ _____	\$ <u>4,464</u>
Total Revenues	_____	<u>4,464</u>	_____	<u>4,464</u>
EXPENDITURES				
Roads	_____	<u>4,464</u>	_____	<u>4,464</u>
Total Expenditures	_____	<u>4,464</u>	_____	<u>4,464</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(_____)	_____	_____	(_____)
Other Financing Sources (Uses)				
Transfers From Other Funds	1			1
Transfers To Other Funds	(<u>513</u>)	_____	_____	(<u>513</u>)
Net Change in Fund Balance	(512)			(512)
Fund Balances – Beginning	<u>512</u>	_____	<u>1</u>	<u>513</u>
Fund Balances – Ending	\$ <u>_____</u>	\$ <u>_____</u>	\$ <u>1</u>	\$ <u>1</u>

The notes to the financial statements are an integral part of this statement.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

MARTIN, COLSON, HALE & HENDERSON
Certified Public Accountants

Robert K. Martin, CPA
Ronald C. Colson, CPA
Matthew H. Hale, CPA, PFS
Rhonda M. Henderson, CPA

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Murray, Kentucky 42071

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Honorable Larry Elkins, Calloway County Judge/Executive
Members of the Calloway County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Governmental Auditing Standards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 16, 2008. Calloway County prepares its financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the County of Calloway's financial statements that is more than inconsequential will not be prevented or detected by the County of Calloway's internal control. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

2008-03 Improvements Needed Regarding Proper Recording Of Capital Assets
2008-04 Time Sheets Should Be Initialed By A Supervisor Before Being Paid

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-03 and 2008-04 to be material weaknesses.

Compliance And Other Matters

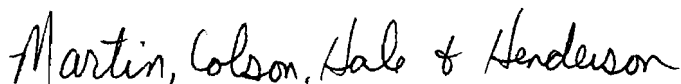
As part of obtaining reasonable assurance about whether Calloway County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- 2008-01 The Fiscal Court Should Approve All County Employees Compensation Rates In
 Accordance With KRS 64.530(1).
2008-02 Vending Machine Funds Should Be Accounted For Properly – Road Department

Calloway County's responses to the comments and recommendations identified in our audit are described in the accompanying comments and recommendations. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Martin, Colson, Hale and Henderson CPAs
December 16, 2008

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**CALLOWAY COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2008

**CALLOWAY COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2008

STATE LAWS AND REGULATIONS

2008-01 The Fiscal Court Should Approve All County Employees Compensation Rates In Accordance With KRS 64.530(1)

According to KRS 64.530(1), the Fiscal Court shall annually fix the compensation of each county officer and employee. Currently, the Fiscal Court approves wage compensations for all county employees through the approval of the original budget. In order to comply with KRS 64.530(1), we recommend that at the beginning of each fiscal year, a list of each employee, by job description, along with his/her compensation rate, be listed and approved by the Fiscal Court. This list as approved by the Fiscal Court should be documented in the Fiscal Court Order Book.

County Judge/Executive Larry Elkins' Response:

We will comply with KRS 64.530(1).

2008-02 Vending Machine Funds Should Be Accounted For Properly – Road Department

During our follow-up of the comments made at the conclusion of the June 30, 2005 audit we discovered that a separate "vending machine account" was being maintained at the county road department. Receipts were not deposited into an official bank account and expenditures were made in cash. There was not an account at a bank to record the transactions of these funds.

KRS 68.210 requires all local government officials and employees to adhere to minimum requirements when handling public funds. These requirements include that daily deposits be made into a federally insured banking institution. These cash receipts were maintained at the road department and never remitted or disclosed to the County Treasurer for deposit into a bank account.

We recommend that any receipts from vending activities and any expenditures for vending activities conducted on county property be reported in accordance with KRS 68.210.

County Judge/Executive Larry Elkins' Response:

We will advise the road department to turn the vending machine change into the treasurer.

CALLOWAY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2008
(Continued)

SIGNIFICANT DEFICIENCIES

2008-03 Improvements Needed Regarding Proper Recording Of Capital Assets.

During the course of our audit we found several changes that needed to be made to the fixed asset listing for it to be accurate. It is our observation that inadequate communication between the departments is the major source of 1) Retired capital assets not being removed, 2) Incorrect costs of capital assets being recorded and 3) Capital items being purchased but omitted from the schedule of Capital Assets maintained by the County Planner. We recommend that each department be required to report quarterly, in a standardized format, any changes to their listing of capital assets. This form should be signed by the responsible individual to verify the accuracy of the information and to identify any shortcomings.

County Judge/Executive Larry Elkins' Response:

We will continue to improve our capital assets recording process. It is our goal to record accurate information.

2008-04 Time Sheets Should Be Initialed By A Supervisor Before Being Paid.

During the course of our audit we discovered that time sheets were being completed by the employee and being delivered directly to the individual in charge of payroll in each department. We recommend that the supervisor in charge of the employee approve payment of each timesheet by reviewing each timesheet for accuracy and initialing such approval. This control will help to prevent collusion between employees and keep the approval in the hands of the supervisor.

County Judge/Executive Larry Elkins' Response:

We will initial as suggested.

**CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CALLOWAY COUNTY FISCAL COURT

For The Year Ended June 30, 2008

Appendix A

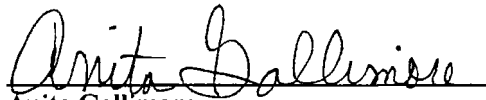
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CALLOWAY COUNTY FISCAL COURT

For The Year Ended June 30, 2008

The Calloway County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as directed by the applicable Kentucky Revised Statutes.



Larry Elkins
County Judge/Executive



Anita Gallimore
County Treasurer

